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SUBJECT: HUNGARY'S NABUCCO AMBASSADOR: LOTS OF MOTION,
LITTLE PROGRESS

Classified By: A/DCM ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D).

¶1. (C) Summary: Over lunch with the Ambassador, Mihaly Bayer, Hungary's Nabucco Ambassador, reviewed PM Gyurcsany's recent trip to Azerbaijan and Turkmenistan--focusing on the PM's call for a Nabucco Summit--and laid out his plans for the coming months. Bayer has traveled almost continuously since taking office in April--making for lots of motion but thus far very little progress on Nabucco. What seemed early on an urgency to act now has been criticized by some of our European colleagues as a defensive maneuver to prove its diversification credentials to Brussels, and especially Washington ... even as it does little to diversify. End Summary.

¶2. (C) Summarizing the PM's meetings in Baku and Ashgabat, Bayer said leaders had unofficially earmarked 8 and 2-10 bcm, respectively, for Nabucco at a future, unspecified date. Even so, he went on, Aliyev's and Berdimuhamedov's hands were tied by their relationships with Russia. According to Bayer, Aliyev told Gyurcsany that "Azerbaijan won't be able to refuse Russian offers to buy gas." "And Turkmenistan," he added, "considers sales to Russia a sacred thing." Turkmenistan, he surmised, was already beginning to increase its leverage vis-a-vis Russia, including with its pipeline to China, but would need time--and the patience of the West--to agree to a Trans-Caspian Pipeline and FDI in its on-shore energy sector. Bayer said Washington could help with both--encouraging U.S. energy companies to engage with Turkmenistan, in off-shore deals for the time being, and interceding to improve Turkmenistan-Azerbaijan relations.

¶3. (C) As widely reported in the press, Gyurcsany used his Central Asia trip as a platform to call for a Nabucco Summit. Bayer--charged with organizing the event--presented February-March 2009 as the preferred timeframe and said the PM intends to invite potential supplier states, in addition to Consortium countries. The GOH likely will cancel, he said, the Nabucco conference previously scheduled to follow on the heels of AmCham Hungary's October energy conference. He was not receptive to the idea that an expert-level meeting in October could help set the stage for the early 2009 summit.

¶4. (C) Bayer also reported on his meeting with Commissioner Piebalgs last week in Brussels, saying the two agreed that "Russia is bluffing" on the amount of power it can project through its energy policy. (Comment: Bayer did not elaborate on this. End comment.) He noted that a new Nabucco Inter-Governmental Agreement (IGA) is in draft--replacing, and incorporating elements of, three earlier drafts--and said he picked up a rumor that Nabucco Coordinator van Aartsen will resign in September. (Comment: In a separate meeting, the Romanian Ambassador to Hungary expressed displeasure with Hungary's earlier IGA exercise. Bucharest, she said, did not appreciate having its time and effort wasted when the GOH failed to inform them that a new draft was in work. End comment.)

¶15. (C) In addition to the IGA and Nabucco Summit, Bayer listed among his top three priorities continued engagement with source countries. To that end, he expressed interest in meeting the Iraqi Oil Minister. Separately, Bayer proposed to travel to Washington in October for Nabucco meetings and likely will meet with visiting Senator Lugar next month.

¶16. (C) Finally, Bayer gave a brief readout of the "unhurried" South Stream project, noting that Budapest had heard nothing from Moscow since it submitted a draft joint venture contract in early June. Although other MFA sources tell us that Bayer has privately complained of his lack of access to information regarding South Stream, he nonetheless opined that the slow pace on the project reflected Russia's "uncertainty on lots of issues"--its IGA with Serbia, gas supplies for South Stream, etc.--but nevertheless expected final contract text before mid-September, when Finance Minister Veres will co-host, with his Russian counterpart, a session of the Hungary-Russia Joint Economic Committee. (Comment: When asked about South Stream last week, Veres claimed there had been no discussion in "the past three months" and made no mention of the planned September session. End comment.) The joint venture, he said, probably would be registered by the end of 2008.

¶17. (C) Comment: Local contacts tell us that Gyurcsany's Central Asia trip--though proudly presented to us several times by the PMO and MFA--has been roundly criticized by the EU and member states, who perceive the PM's talks as little more than "public relations grand-standing." The Dutch Ambassador here, for example, has made no secret that "the Commission" regards Gyurcsany's trip as "turning the world upside down," adding that the initiative has further "isolated Gyurcsany" within EU circles. Although a move from bad-mouthing to grand-standing is still progress, critics at home and abroad are right that even following the PM's trip, the GOH has downplayed in the press any potential for gas supplies from Azerbaijan and Turkmenistan. Similarly, we note that the absence of transaction-focused MOL CEO Zsolt Hernadi in the PM's delegation. In his stead was MOL COO Gyorgy Mosonyi, who is, by all accounts, an able operator but has no decision-making authority. Bayer is in similar straits: Although MFA officials continue to comment that he will "lay the pipeline himself if he has to," thus far he has few breakthroughs for all his frequent flyer miles. Finally, the GOH seems content to host a Nabucco Summit but can only undermine its chances for success by refusing to hold expert-level talks in advance. Having welcomed the trip and the Summit proposal, we should now turn our attention to encouraging the requisite follow-through, in particular pre-Summit talks in Budapest or elsewhere. End Comment.

Foley